

# Tourism Action Plans to Pose Market Headways

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**As of Q1 2018, Yangon's hotel market continued to navigate a downward route. Despite the substantial ADR reduction, citywide occupancy rate further declined which settled under the 50% mark. Despite this, Colliers still believes that the tourism and hospitality sector plays an intrinsic role in the country's economic development. This, on the back of the government's legislative initiatives and development plans to reinforce the demand potential.**

## Forecast at a glance



### Demand

On the back of the government's tourism plans and legislative efforts, demand is set to improve in the long term with interest coming especially from both frequent business and leisure travellers.



### Supply

Yangon's upper-scale hotel room stock grew by 25% YOY. Colliers expects the entry of 16 hotel developments to be completed within 2018-2020.



### Occupancy Rate

Citywide occupancy settled at 49% despite the substantial reduction in ADR. We expect the number to further decline given the sizeable stock anticipated in the next twelve months.



### Average Daily Rate

Colliers recorded a 13.5% YOY decline in average daily rate. We anticipate daily rates to settle at competitive levels as supply becomes substantial in the next two years.

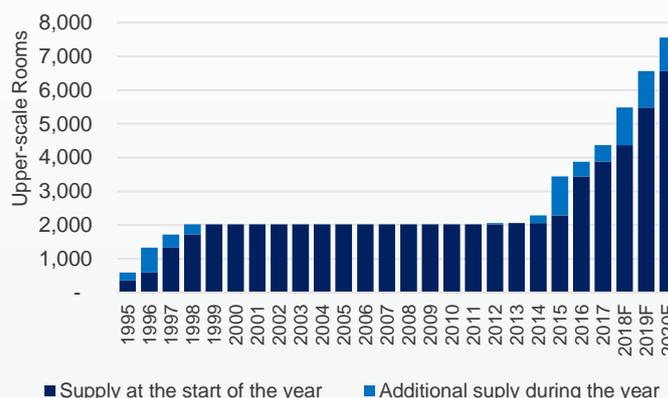
## Inner City Stock Seen to Further Expand in 2018-2020;

Myanmar, specifically Yangon, has attracted a steady crowd of older, affluent tourists over the course of military rule. However, in 1995, tourist arrival numbers dwindled resulting from the political upheavals during such period. Along with the rest of the country, the already limited number of four- and five-star hotels declined as Western sanctions kept investors and most international hotel management companies away.

After a series of bold social and economic reforms since the country's return to civilian rule in 2011, Colliers observed that expansion has accelerated and international hotel companies have regained their confidence and started making their mark in Myanmar. A building boom triggered by the optimism surrounding the country's democratisation and the relaxation of rules relating to foreign hotel investments caused a surge of hotel developments in Yangon's property landscape.

As of Q1 2018, Yangon's upper-scale hotel room stock further increased to more than 4,800 rooms, up by 11% QOQ and 25% YOY. This improvement in supply numbers is due to the debut of Pullman Hotel by LP Holdings and Spring Line Hotel by Shwe Oak Khai Co.,Ltd. The former is a luxury hotel situated in Kyauktada Township while the latter is a 4-star development located in Insein Township. Collectively, these projects make up for approximately 470 additional units.

### Yangon Upper-scale Hotel Stock (No. of Units)



Source: Colliers International Myanmar

The current supply figures grew at a compounded annual growth rate of 12% from 1995 to 2017 and is forecasted to further escalate at an annual growth rate of 14% in the next two years. In fact, around 16 upper-scale hotel projects are estimated to be completed within 2018-2020, translating to more than 3,100 new rooms.

For the immediate year, we expect the entry of six new developments, with approximately 60% situated in the Inner City Zone. Projects like Wyndham Hotel by Asia Myanmar Consortium Development Co., Ltd., Sheraton Hotel by Family Business Group Hotel Co. Ltd., and Rose Graden Phase 2 and 3 by Emerald Development Co., Ltd. are some of the notable hotels expected in the area within the year. Also in the 2018 supply pipeline are two Downtown developments, which includes the formerly known Heritage Hotel Yangon by JL Group and the Yangon Excelsor Hotel by Apple Tree – that will bring in more than 300 new rooms. Overall, Colliers expects almost 1,110 additional units to conclude in 2018. While the sizeable future stock appears to be staggering, Colliers perceives that further initiatives from the government is necessary to ensure a more sustainable development plan is in place for Myanmar's tourism and hospitality sector.

## Government Interventions Set to Fuel Market Improvements

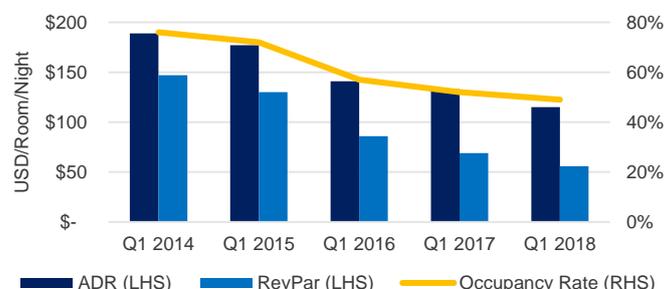
A surge of foreign tourists was witnessed in Myanmar since relations with the West thawed and the country began to open up to the world in 2011. The growth springing from this occasion created an impetus for the tourism and hospitality industry to expand. In fact, it is among the Myanmar Investment Commission's (MIC) promoted sectors, of which investment projects providing services like hotel and resort construction will benefit from income tax and import duty exemptions. Additionally, the government named this sector as a priority industry in its National Export Strategy (NES) and listed it within the Framework for Economic and Social Reforms. Inclusion in the NES, a five-year plan that began 2015 to boost economic growth promises to open the hotel market to private investments and loosen constraints in the business environment by increasing access to finance and trade information, as well as by allowing for a diversification of revenue sources from the development of new hotel offers. More recently, a new draft of tourism law was submitted to the Parliament in 2017. The legislation aims to update the 1993 Myanmar Tourism and Hotel Law. It targets to enhance the quality of tourism, specifically hotel services, by seeking a balance between the rights of businesses, tourists, and authorities. Further legislative changes include a new Foreign Investment Law drafted by the Directorate of Investment and Company Administration (DICA). The law, in effect since April 2017, is meant to encourage foreign investments across a range of sectors, including the hotel property segment.

Largely, these legislative efforts are anticipated to play a significant role in the broader market's development. While the aforementioned legalities bodes well in the hotel market,

effective measures must be set in place to further guide hoteliers and lure more guests and travellers. At the same time, given that competition is predicted to further intensify, Colliers encourages investors to veer towards the untapped mid-scale hotel category. Besides defining the right hotel design and features, appointing suitable international operators will also enhance the marketability of the development.

## Downhill Course in Rates Observed

### Yangon Upper-scale ADR & Occupancy Rate



Source: Colliers International Myanmar

As of Q1 2018, the citywide occupancy rate settled below the 50% level. Despite the substantial 13.5% reduction in the average daily rates from Q1 2017's USD69 per night, the occupancy rate did not show any signs of improvement. Colliers sees that the entry of more modern hotels will likely exert downward pressure on daily rates for older upper-scale developments, with newer ones likely to set rates at competitive levels. These adjustments in ADR are likely to continue especially as supply becomes substantial in the next two years.

Generally, the country continues to attract a steady stream of overseas visitors to flagship destinations like Yangon. According to Oxford Business Group, the tourism sector in Myanmar is ahead of other industries in terms of having sector-specific policies. However, responsible business in tourism will only be achieved if the wider regulatory framework (e.g. investment laws, labour laws, environmental laws, land and cultural heritage policies, etc.) considers the current Yangon hotel market condition along with its enforcement being strengthened. The next phase of growth will demand better marketing, branding and identity of the country. A more in-depth investigation of the tourist profiles and arrival statistics is vital. This should allow the government to design and implement programs deemed ideal and suitable for the market; and eventually support the hotel and tourism businesses.

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